

## Message Text

LIMITED OFFICIAL USE

PAGE 01 SANTO 00122 01 OF 02 091446Z

43

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 SS-15 NSC-05 L-02

PA-01 PRS-01 USIA-06 AGR-05 /082 W

----- 105722

R 082121Z JAN 75

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 2471

LIMITED OFFICIAL USE SECTION 1 OF 2 SANTO DOMINGO 0122

E.O. 11652: N/A

TAGS: EFIN, ECRP, DR

SUBJECT: ECON CRISIS - REVIEW OF LDC BALANCE OF PAYMENT SITUATION

REF : STATE 275634; SD 0025; CERP 0102

1. EMB/AID OFFS IN CONSULTATION WITH CENTRAL BANK OFFICIALS HAVE COMPILED BALANCE OF PAYMENTS FIGURES FOR THE DOMINICAN REPUBLIC FOR CY 73, 74, AND 75 PRESENTED BELOW IN PARAS. 2, 3, AND 4. FIGURES FOR 1973 ARE REASONABLY FIRM; 1974 FIGURES ARE PRELIMINARY ESTIMATES; AND 1975 FIGURES ARE VERY PRELIMINARY, BASED PRIMARILY ON CENTRAL BANK PROJECTIONS WITH ADJUSTMENTS TO THE CAPITAL ACCOUNT FOR 1974-75 MADE BY EMBASSY/AID.

2. IMPORT/EXPORT DATA PRESENTED IN THIS PARAGRAPH ARE ON A PAYMENTS BASIS AND IMPORTS C.I.F. AS REQUESTED IN STATE REFTEL. IN THE DR, THESE FIGURES REPRESENT ONLY TRANSACTIONS MADE THROUGH THE CENTRAL BANK. FIGURES ARE IN MILLIONS OF RD PESOS (ONE PESO EQUALS ONE DOLLAR):

ITEM	1973	1974	1975
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PAGE 02 SANTO 00122 01 OF 02 091446Z

EXPORTS: (F.O.B.) 357 530 1,040

SUGAR	(192)	(320)	(612)
COFFEE	(46)	(40)	(46)
TOBACCO	(33)	(29)	(40)
FERRONICKEL	(20)	(21)	(23)

IMPORTS: (C.I.F.) 364 627 800  
(NO BREAKDOWN AVAILABLE)

TRADE BALANCE -7 -97 240

3. SINCE NOT ALL FOREIGN EXCHANGE EARNINGS FROM EXPORTS ARE TURNED INTO THE CENTRAL BANK AND SINCE THE PARALLEL MARKET FINANCES SOME IMPORTS, THE FIGURES ON A PAYMENTS BASIS AS IN PARAGRAPH 2 ABOVE OFTEN UNDERSTATE BOTH EXPORTS AND IMPORTS. FOR THE PURPOSE OF CALCULATING THEIR BALANCE OF PAYMENTS, DOMINICAN AUTHORITIES USE TRADE FIGURES THAT ARE COMPILED FROM CUSTOMS DATA. IMPORT VALUES ARE PRESENTED ON AN F.O.B. BASIS AND THE DIFFERENCE BETWEEN F.O.B. AND C.I.F. IS INCLUDED UNDER NET SERVICES. ON THESE BASES, THE BALANCE OF PAYMENTS FIGURES ARE AS FOLLOWS:

ITEM	1973	1974	1975
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EXPORTS: (F.O.B)	442	647	1,134

SUGAR	(206)	(350)	(680)
COFFEE	(40)	(54)	(60)
COCOA	(24)	(43)	(43)
TOBACCO	(30)	(30)	(35)
FERRONICKEL	(84)	(99)	(100)
GOLD AND SILVER	(0)	(0)	(40)

IMPORTS: (F.O.B.) 422 648 782

FERTILIZER(CHEMICAL COMPONENTS)

	(14)	(20)	(22)
TETROLEUM	(45)	(150)	(165)
FOOD GRAINS	(23)	(58)	37)

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PAGE 03 SANTO 00122 01 OF 02 091446Z

TRADE BALANCE 20 -1 352

NET SERVICES -149 -178 -240

NET TRANSFERS 31 32 25

CURRENT BALANCE -98 -147 137

## NET OFFICIAL CAPITAL:

	14	23	35
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US	(6)	(6)	(8)
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## OTHER DAC AND INT'L

ORGANIZATIONS	(6)	(17)	(27);
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OTHER SOURCES	(2)	(0)	(0)
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OIL PRODUCERS (OPEC)	(0)	(0)	(0)
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COMMUNIST COUNTRIES	(0)	(0)	(0)
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NET PRIVATE CAPITAL	74	110	24
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OVERALL BALANCE	-10	-14	196
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FINANCED BY:	1973	1974	1975
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IMF OIL FACILITY	0	0	0
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IMF OTHER	0	13	-13
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## OTHER SHORT TERM

BORROWING	5	0	: -139
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CHANGE IN RESERVES	5	1	-139
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(MINUS EQUAL INCREASE)

## DEBT SERVICE (PAYMENTS

## ON CENTRAL GOVERNMENT

EXTERNAL DEBT)	33	18	23
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## GROSS FOREIGN EXCHANGE

## RESERVES (CENTRAL BANK)

	88	95	180
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## 4. VOLUME DATA FOR EXPORTS AND IMPORTS FOLLOW:

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PAGE 04 SANTO 00122 01 OF 02 091446Z

## EXPORTS IN 000'S MT (SOURCE CHDOPEX FOR 1973-74)

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	1973	1974	1975
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## SUGAR AND BY-PRODUCTS

	1,364	1,485	1,500
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RAW SUGAR	1,037	987	1,000
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COFFEE	19	23	25
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TOBACCO	28	33	30
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COCOA	24	29	32
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## IMPORTS (SOURCE: EMBASSY ESTIMATES)

FERTILIZERS (000'S MT)	180	200	200
FOOD GRAINS (000'S MT)	122	182	125
PETROLEUM(MILLION BBL)			
	11.3	12.0	12.6

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PAGE 01 SANTO 00122 02 OF 02 091454Z

43

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CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 SS-15 NSC-05 L-02

PA-01 PRS-01 USIA-06 AGR-05 /082 W

----- 105816

R 082121Z JAN 75

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 2472

LIMITED OFFICIAL USE SECTION 2 OF 2 SANTO DOMINGO 0122

5. ESTIMATED REAL GROWTH RATES FOR THE DOMINICA ECONOMY FOR 1974 AND 1975 ARE 6.5 PERCENT AND 7.0 PERCENT, RESPECTIVELY. THE MARGINAL EFFECT OF THE ENERGY CRISIS ON THESE RATES IS ESTIMATED AT A NEGATIVE 0.2 PERCENT.

6. EXPLANATION OF DATA:

A. EXPORTS: WHILE THE VOLUME OF TRADITIONAL DOMINICAN EXPORTS HAVE INCREASED SLIGHTLY, THE REAL GAIN IN VALUE HAS BEEN THROUGH INCREASED PRICES FOR THESE PRODUCTS, ESPECIALLY SUGAR AND ITS DERIVATIVES. ALMOST WITHOUT EXCEPTION, TRADITIONAL AND NON-TRADITIONAL EXPORT PRICES WERE HIGHER IN 1974 OVER 1973. THESE PRICES ARE EXPECTED TO BE SUSTAINED IN 1975. IN ADDITION, FERRONICKEL HAS APPEARED AS AN IMPORTANT NEW EXPORT AND A LARGE GOLD AND SILVER MINE IS EXPECTED TO BEGIN PRODUCTION IN FEBRUARY 1975 AND SHOULD ADD SUBSTANTIAL VALUE TO DOMINICAN EXPORTS.

B. IMPORTS: BOTH VOLUME AND PRICE INCREASES WERE

EXPERIENCED IN 1974 OVER 1973. NATURALLY, PETROLEUM PRODUCTS  
LEAD THESE INCREASES. THERE WAS, ALSO, A SUBSTANTIAL  
INCREASE IN BOTH VOLUME AND PRICES FOR FOOD GRAINS. THE  
PROJECTIONS FOR 1975 ASSUME MORE OR LESS LEVEL PRICES AND A  
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PAGE 02 SANTO 00122 02 OF 02 091454Z

ROUGH BALANCING TRADE-OFF WITH CERTAIN IMPORT CATEGORIES  
INCREASING AND OTHERS DECLINING.

C. CAPITAL FLOWS: IN 1973 AND 1974, CAPITAL FLOW  
(ESPECIALLY PRIVATE CAPITAL) WAS SUBSTANTIAL AND POSITIVE.  
A DRAMATIC SWITCH, HOWEVER, IS ANTICIPATED FOR PRIVATE  
CAPITAL IN 1974 WHICH WILL RESULT FROM EXPECTED DEBT  
REPAYMENT OF AROUND \$126 MILLION. IT SHOULD BE NOTED THAT  
DOMINICAN FIGURES FOR PRIVATE CAPITAL INCLUDE THE ACTIVITIES  
OF THE "DECENTRALIZED" OF SEMI-AUTONOMOUS  
GOVERNMENT AGENCIES. WE HAVE REDUCED THE CENTRAL BANK FIGURE  
ON GROSS CAPITAL OUTFLOW ATTRIBUTED TO ROSARIO GOLD MINES  
FOR 1975 FROM 40 MILLION TO \$15 MILLION. WE HAVE RAISED THE  
CENTRAL BANK FIGURE ON OFFICIAL CAPITAL INFLOW FROM \$25  
MILLION TO \$35 MILLION IN VIEW OF THE \$149 MILLION IN LOANS  
EXTENDED TO THE COUNTRY BY IBRD AND IDB BEGINNING IN 1974  
AND IN VIEW OF THE RECENT \$12 MILLION LOANS EXTENDED BY AID.  
THE RESULT IS TO INCREASE THE OVERALL SURPLUS BY \$35 MILLION.

D. FINANCING: ALTHOUGH THE FIGURES IN PARAGRAPH 3,  
ABOVE, FOR 1973 AND 1974 DO NOT INDICATE SUBSTANTIAL RECOURSE  
TO SHORT-TERM BORROWING, THE FIGURES IN PARAGRAPH 2 AND IN  
PARAGRAPH 3 FOR 1975 (UNDER FINANCED BY) REVEAL THAT THERE HAS BEEN A  
CASH-FLOW PROBLEM, ESPECIALLY IN 1974. FROM CONSULTATIONS WITH  
CENTRAL BANK OFFICIALS, AND OTHER SOURCES, WE ARE AWARE THAT THE  
CENTRAL BANK HAS DRAWN SIGNIFICANTLY ON LINES OF CREDIT WITH US  
AND CANADIAN COMMERCIAL BANKS. IN ADDITION, THE CENTRAL  
BANK DREW A \$13 MILLION GOLD TRANCHE FROM THE IMF IN  
DECEMBER 1974. WHILE WE DO NOT HAVE A FIRM TOTAL ON THE  
AMOUNT OF THIS DEBT, THE 1975 PROJECTIONS SHOW ANTICIPATED  
REPAYMENTS TO THE IMF OF \$13 MILLION, AND, FOR SHORT-TERM  
BORROWINGS, AT LEAST \$44 MILLION.

E. GENERAL COMMENT: (1) THE SUBSTANTIAL INCREASE IN THE  
VOLUME OF DOMINICAN EXPORTS APPEARS TO BE OF SUCH A MAGNITUDE  
AS TO ASSURE A TRADE SURPLUS THROUGH 1976. HOWEVER, THE RE-  
PAYMENT OF ACCUMULATED SHORT- AND MEDIUM-TERM DEBT OBLIGATIONS IS  
LIKELY TO ABSORB MUCH OF THE SURPLUS ANTICIPATED FOR 1975. THE  
COUNTRY'S NET FOREIGN EXCHANGE POSITION, NEVERTHELESS,  
SHOULD INCREASE BY APPROXIMATELY \$196 MILLION IN 1975, AND  
FOR THE FIRST TIME IN MANY YEARS THE COUNTRY MAY HAVE NET  
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PAGE 03 SANTO 00122 02 OF 02 091454Z

RESERVES EQUIVALENT TO THE VALUE OF THREE MONTHS OF MERCHANDISE IMPORTS. (2) THE EFFECT ON NEAR-TERM IMPORT-EXPORT POLICIES WILL BE AN EFFORT TO MAXIMIZE EXPORT EARNINGS AND TO MINIMIZE INCREASES OF IMPORTS CONSISTENT WITH DEVELOPMENT OBJECTIVES AND PRIORITIES. THE GOVERNMENT HAS ALREADY TAKEN STEPS TO REDUCE THE CURRENT VOLUME OF FOOD GRAIN IMPORTS THROUGH INCREASED AGRICULTURAL PRODUCTION AND THE ESTABLISHMENT OF BETTER MANAGEMENT CONTROLS OVER ITS OWN ACTIVITIES IN THIS AREA. THE MARKET PRICE MECHANISM SEEMS TO BE WORKING IN PETROLEUM CONSUMPTION PATTERNS AND SOME INCREASED POWER FROM HYDRO-ELECTRIC FACILITIES WILL HELP, BUT GODR MEASURES TO CONSERVE ENERGY SO FAR HAVE BEEN RELATIVELY MODEST. ELECTRICAL RATES HAVE BEEN SHARPLY INCREASED AND MADE PROGRESSIVE. RATE INCREASES FOR ELECTRIC POWER SHOULD REDUCE THE RATE OF INCREASE IN CONSUMPTION. A FURTHER STEP (NOT YET TAKEN) WOULD BE TO RETARD THE IMPORTATION OF MOTOR VEHICLES PERATING IN THE COUNTRY, PARTICULARLY OF THE LARGER SIZES. (3) AS FOR INCOME DISTRIBUTION, THE REAL INCOME OF THE LOWER CLASSES IS BEING REDUCED SOMEWHAT BY INFLATION WHICH IN PART IS CAUSED BY INCREASED PETROLEUM PRICES. THE COSTS OF PUBLIC TRANSPORTATION, HOUSING, AND ELECTRICITY ARE UP. PRICES OF BASIC COMMODITIES CONTINUE TO RISE ALTHOUGH THE GOVERNMENT HAS TRIED TO MINIMIZE THE NEGATIVE IMPACT OF INFLATION ON INCOME DISTRIBUTION OF THE LOWER CLASSES BY CONTINUING SUBSIDIES AND PRICE CONTROLS, AND BY RAISING MINIMUM WAGES SIGNIFICANTLY. WHILE IN THE SHORT AND MEDIUM TERM IT WILL BE DIFFICULT FOR THE GOVERNMENT TO PREVENT FURTHER REDUCTION OF THE REAL INCOME OF THE LOWER CLASSES, LONGER-RUN POLICIES WHICH WILL RECEIVE ADDED EMPHASIS AS A RESULT OF THE ENERGY PROBLEM SHOULD CONTRIBUTE TO A MORE EQUITABLE DISTRIBUTION OF INCOME. THIS CAN BE EXPECTED IF THESE POLICIES ARE EFFECTIVELY IMPLEMENTED. (4) LONGER-RUN POLICIES WILL INCLUDE (A) CONTINUED EMPHASIS ON IMPROVED AGRICULTURAL PRODUCTION, BOTH TO SAVE ON IMPORTS AND TO GENERATE GREATER EXPORTS; (B) CONTINUED EMPHASIS ON TOURIST DEVELOPMENT; (C) IMPROVEMENTS IN TRANSPORTATION AND PORT FACILITIES; AND (D) THE INSTALLATION OF GREATER ELECTRICAL GENERATING CAPACITY.

AXELROD

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## Message Attributes

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